1. The term Auditing includes --------------

   a) Assessing the significant estimates made by the management in the preparation of financial statements
   b) Assessing accounting principles used in the preparation of the financial statements.
   c) Both a and b

   Answer: c) both a and b Auditing here refers to financial audit. It is done to give the opinion on compliance of various laws related to the activities and the principles of accounting.

2. -------------- is the example of fictitious Asset.

   a) Cash and Bank Balance
   b) Preliminary Expenses
   c) Land & Building

   Answer: b) Preliminary Expenses

3. When Audit is in the form of investigation the main objective is to ------------

   a) Detect and prevent errors and frauds
   b) Vouch the cash book
   c) Prepare a systematic audit program

   Answer c) Prepare a systematic audit program. Financial Audit is examination and verification of books of accounts, documents and financial statements. Whereas, Investigation is in-depth enquiry, based on suspicion of illegal, immoral, negligent or fraudulent act. It is focused on specific scrutiny to collect the evidences of the fraud.
4. Financial statements prepared by the company should be ---------------
   a) As per financial reporting framework
   b) Should agree with the books of accounts, and supported by the documentary evidences
   c) Both a and b

   Answer c) An Auditor needs to verify whether the financial statements have been prepared taking into consideration all the accounting principles, provisions of various regulations, and are in agreement with the actual transactions.

5. --------------- refers to the critical and analytical examination of financial records.
   a) Auditing
   b) Accounting
   c) Investigation

   Answer: a) Auditing

6. The process of --------------- begins, when the process of Accounting completes
   a) Book Keeping
   b) Investigating
   c) Auditing

   Answer: c) Auditing

7. Auditing begins when accountancy ends means-----------------
   a) Auditor has to start the Audit work only after the financial statements are prepared by the client.
   b) Auditing requires all the documentary evidences, books of accounts and all other relevant documents at the time of auditing.
c) None of the above

**Answer:** b) Auditing requires all the documentary evidences, books of accounts and all other relevant documents at the time of auditing.

8. Auditing begins and continues until ------------

a) The audit work gets completed.
b) The Central Government removes them
c) **The next AGM takes place.**

**Answer:** c) Auditing has to continue till the next Annual General Meeting takes place. The main purpose of preparing the audit report is to inform the facts and figures to the members or the owners of the company. Officially shareholders meet in AGM. The Auditor needs to present and clarify all queries of the shareholders in regards to the Audit work in the AGM.

9. While Auditing the books of an entity, the auditors must ensure that they----------------

a) Follow the Accounting principles and standards
b) Follow the Auditing Standards
c) **Follow the Generally Accepted Audit Procedure**

**Answer:** c) Auditors have the follow the Generally Accepted Audit Procedure.

10. On signing the Audit engagement, Auditors prepare an Audit program to ensure that complete audit takes place in a systematic manner. The work is allocated and distributed on the basis of -------------

a) Identifiable units or books of accounts or assets and liabilities
b) Months or days or number of transactions
c) **Both a and b**
Answer: c) Both a and b. Auditor plans the work in some systematic manner. The Auditor evaluates the quantum or work and then allocates the work among the staff in a flexible manner to cover every materially important area on whose basis a true and fair report and opinion can be concluded.

11. --------------, means the information based on which the Auditor gives his opinion and prepares the Audit report.

   a) Audit Note book
   b) Audit working papers
   c) Audit Evidence

Answer: c) Audit Evidence refers to the information which may be in form or documents, vouchers, explanations, minutes of meetings, or explanation and clarification given by employees, management and third party in arriving at a conclusion.

12. --------------, refers to a process adopted by the auditor to authenticate the truthiness and correctness by way of examining the records or documents or physical examination of an object or asset

   a) Inspection
   b) Audit
   c) Vouching

Answer: a) Inspection of physical assets, documents, records and any other evidence means to believe the truthiness of occurrence of an event.